

December 1, 2000

HONORABLE CITY COUNCIL:

RE: **Proposed Five-Year Capital Agenda**

In accordance with provisions of the City Charter, I herewith submit to you my recommendations for capital improvements as contained in this document, the Capital Agenda for the five-year period 2001-02 to 2005-06.

Detroit has evolved from ribbon farms to towering skyscrapers; from 100 people to hundreds of thousands. Detroit has evolved from the landing of Cadillac to the late Honorable Mayor Coleman A. Young. Pioneers like Dr. Ossian Sweet to Dr. Ben Carson. As we celebrate this new millenium and Detroit's 300th birthday, we are reflective of our heritage, humbled by our opportunities and excited by our possibilities. It all began with families and today it is still all about families.

This document presents a \$3.6 billion five-year capital program with funding from general obligation bonds, revenue-supported, federal, state and private sources.

As the citizens of Detroit have voiced their concerns on numerous capital issues, we have tried to address their concerns for:

- Adequate and effective public safety
- Reliable lighting services
- Quality recreation facilities
- Various infrastructure improvements to our streets, roads and water and sewage systems

Since 1987 we have gone to the voters for general obligation bond authorization eight times for a total of \$770.9 million (this includes the recently approved November 7, 2000 authorization for \$171 million). To date, we have sold general obligation bonds totaling \$551.5 million to address capital improvement needs.

Over the past five years, we have received twelve rating increases on our outstanding tax-supported debt from the bond rating agencies: Fitch, Moody's and Standard and Poors. Currently, we enjoy investment grade ratings from all three agencies that translate into lower borrowing costs and substantial interest savings on current and future bond sales.

We would like to acknowledge and express our gratitude to both our public and private contributors. Their vital support allows our various City agencies to pursue and accomplish a number of their capital and operating goals to the benefit of all the citizens of Detroit.

I present to you the Proposed FY 2002-06 Capital Agenda. I hope it facilitates your understanding of the proposed capital improvement initiatives of the City of Detroit and its various entities.

Sincerely,

DENNIS W. ARCHER
Mayor

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EXECUTIVE SUMMARY

Purpose

Capital planning has a fundamental purpose to good management: conducting thorough analysis of future needs, monitoring and evaluating projects throughout their implementation, and conducting appropriate maintenance of capital assets. Detroit's capital planning process is directed toward overall city priorities established through citywide strategic planning begun in 1999. The process uses a long-term outlook within agencies and on a citywide level to set core service priorities, refocus and redirect city resources toward them, and measure performance toward service outcomes. Policy and the budget – both operating and capital – are utilized in tandem.

The Capital Agenda is a requirement of the City Charter to be produced in every even numbered year. The Charter states the type of information that should be contained in the Capital Agenda and the review and approval process.

Charter Requirement

The City Charter, as amended in 1997, requires that on or before December 1 of each even numbered year, the Mayor shall submit to City Council a proposed Capital Agenda. The City Charter then specifies the type of information that should be included in the document. The Capital Agenda should contain:

- a. All physical improvements and related studies and surveys, all property of a permanent nature, and all equipment for any improvement when first erected or acquired, to be financed during the next five years in whole or in part from funds subject to control or appropriation by the City, along with information as to the necessity for these facilities; Capital expenditures which are planned for each of the next five years;*
- b. The estimated annual cost of operating the facilities to be constructed or acquired and*
- c. Other information pertinent to the evaluation of the Capital Agenda.*

The City Charter also specifies that for each purpose, project, facility or other property that the Capital Agenda should indicate the source of funds and the amount of funds that have been expended, intend to be spent or encumbered before the next fiscal year and for each of succeeding five years. The information can be revised or extended each year for capital improvements that are pending or in process. Some departments have regular continuous capital improvement projects that will extend from one Capital Agenda to the next. This information is then revised to reflect current conditions.

Capital Agenda Process

The Capital Agenda process begins with the issuance of a directive from the Budget Director to all departments with capital programs. The Budget Directive outlines the type of information required and the due dates. It begins with a statement that the preparation of the Capital Agenda is Charter

requirement and must include all capital projects, which are “to be finance... in whole or in part from funds subject to control or appropriation by the City”. This all-encompassing statement requires then that all General City, Enterprise Agencies and other “quasi-

EXECUTIVE SUMMARY

Capital Agenda Process (Continued)

public/private” entities (i.e., Economic Growth Corporation) with capital programs submit information for the Capital Agenda. This information should be submitted regardless if, they are using general obligation bond funding or receive grants- (state or federal) or private funds only.

The Capital Agenda is comprised of a narrative description of the department’s capital plan and a spreadsheet summary of the plan. The narrative section of the Agenda provides background information on the agency and briefly outlines the proposed future capital needs of the agency. A description of the agency’s mission and current facilities, goals and rationale of the capital program helps the reader of the document to evaluate the capital needs of the department. The Interdepartmental Capital Relationship section was added to address projects and activities that cross agency lines. A discussion of those projects that are administered in conjunction with other agencies or those that require action or funding from other agencies helps both internal and external users of the document. A discussion of the department’s recently completed projects and their proposed capital plan provides a look back over the last five-years, as well as, a look forward to the next five- years of capital activity. As part of the narratives, we include a description for each project included in the proposed five-year plan. The description should include the physical attributes of the project, service improvements expected and any changes to operating costs or revenues, the population or geographic area to be served, and the relationship of the project to existing facilities. Any information that justifies the need for the project should be included in the narrative description of the project. American with Disabilities Act (ADA) requirements should be address in each agencies capital plan. We also ask that projects located within the empowerment zone be designated as such. In general, revisions to an agency’s capital plan should reflect new projects and/or new priorities, revised project costs and updated project descriptions.

The spreadsheet summary of the agency’s capital plan provides the anticipated funding requirements for each project for the current fiscal year and the next five-years. Projects should be listed in priority order (from the highest priority to the lowest). Each project should be evaluated and should indicate the following:

1. project status: new development or maintaining current infrastructure
2. project timeline: project is proposed or on-going or underway-1 time only
3. impact on budget: increase or decrease in operating funding required or no impact
4. impact on staffing: increase or decrease in staffing levels required or no impact

Each funding source for a project should be identified, if available. Projects with questionable funding is shown as unprogrammed. The current year’s budget as approved by City Council is shown. Also, listed is the amount of authorized/unissued general obligation bonds. This provides the authority, upon City Council’s approval, to sell bonds for an approved project.

In an effort to create a more comprehensive user-friendly document, we encourage all agencies to submit graphics, maps and any other information that would help convey to the reader the nature of the agency’s capital plan.

EXECUTIVE SUMMARY

Capital Agenda Process (Continued)

To facility the preparation of the Capital Agenda, training is provided to each participating department. This can be done either on a group or individual basis.

Hearings with the Budget Director are scheduled for each participating agency to allow the agency the opportunity to discuss their capital program, to emphasize key activities and needs and to discuss any issues, concerns or other pertinent matters.

After the Capital hearings, the Budget Department, in conjunction with the Planning and Development Department performs a review of the capital plans. Upon completion of the review, the Budget Department will submit recommendations to the Mayor, who in turn will submit his five-year Capital Agenda to the City Council, on or before December 1 (in accordance with City Charter).

Capital Planning and Implementation

The City of Detroit's capital improvement planning process occurs in two stages. The Capital Agenda is a long-term planning document that provides a great deal of information regarding past projects, future plans and financing alternatives for the current budget year and the next five years. This document describes the projects under construction and being planned or proposed by each department or agency, including possible funding sources. The Capital Agenda is a planning document and thus it not a legally binding commitment for/or to any particular project. As a result, as you review the document, you may see that certain projects do not have an identifiable funding source.

The annual budget is the controlling document for capital projects. It is the legal commitment of the City and, as such all funding sources for projects contained in the annual budget must be identified. The allocation of capital resources faces some of the same constraints that exist for allocating operating funds. In some instances, the operating and capital needs of a department are competing for the same dollars (usually General Funds), and in other cases, departments may be competing with each other for a "limited pot" of debt financed capital.

The capital portion of the City's budget is different from the operating portion, in that funds for capital projects are balanced forward to a subsequent fiscal year, if not completed. This is normally the case with grant or debt financed projects.

The City has used four basic resources for funding capital projects: bonds, cash capital (cash from operations), grants-federal/state/private, and dedicated taxes.

There are three types of bonds used to finance capital projects: general obligation bonds-unlimited tax; general obligation bonds-limited tax; and revenue-supported bonds.

Bonds

The voters of the City of Detroit, as required the State Constitution must authorize unlimited-general obligation bonds. These bonds are repaid from a specific property tax levy. It has been City policy to go to a vote-of-the people every three years. Normally, the City requests approval for a broad category of projects with sufficient authorization to cover a 3 to 5 year period. In November 2000, the City received authorization for \$171 million in capital projects for the following categories:

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Neighborhood Redevelopment and Economic Development Programs	\$30,000,000
Public Safety Improvements	\$12,000,000
Public Lighting Service	\$30,000,000
Recreation, Zoo and Cultural Facilities	\$56,000,000
Municipal Facilities	\$18,000,000
Detroit Institute of Arts	\$25,000,000

Limited tax-general obligation bonds do not require voter authorization (unless requested by a petition). These bonds are repaid from General City operating funds. Accordingly, issuing limited-tax bonds will reduce the amount of funding for future operations and are only issued in special circumstances (i.e. Deficit Funding Bonds).

Revenue bonds are bonds whose repayment is based on rates, charges, or special revenues of a particular enterprise or agency. Examples of revenue bonds are water and sewage debt, parking system debt and tax increment debt.

Investment Earnings

The City can allocate investment earnings on general obligation bond proceeds to projects have had prior voter authorization. The projects to be funded are decided during the budget development process. The City can also allocate investment earning to reduce the debt service millage rate. In addition, investment earnings of certain debt retirement funds (such as Cobo Hall) may be dedicated to capital improvements. Investment earnings on enterprise fund (Water, Sewage, Parking) bond proceeds are used for ongoing capital projects.

Cash Capital

The City may allocate unrestricted general fund revenues for capital project. For General Fund agencies, the amount of current funds dedicated to capital is a budget allocation decision.

Grants/dedicated Taxes

Certain City agencies receive dedicated funds from State and Federal sources. These funds normally have special reporting requirements of the recipient agencies. An example of dedicated taxes is the incremental financing authorities (i.e. TIFA-Tax Increment Financing Authority-see section on other financing entities).

Department Highlights

The Proposed Capital Agenda for fiscal years 2002-2006 continues to reflect the pressing infrastructure needs that exist Citywide. Each agency's capital program is one that is primarily devoted to infrastructure improvements. The City's main tool for financing capital projects is general obligation bonds. Normally, our general obligation bond program is limited to \$40- \$50 million annually due to internal and external pressures to control our debt levels (rating agency reviews, property tax levies, market conditions, etc). However, our requests for bond funds are 2 to 3 times greater. The need is great, but our resources are limited. So the challenge before us is how to maximize our efforts to meet the needs of the City and the concerns of its citizens with the resources that are available. We believe that we can meet these challenges through prudent planning, proactive implementation and constituent support.

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One agency, Recreation, has partnered with community organizations and corporate sponsors to address its infrastructure needs. The Recreation Recapitalization Program is an innovative program that Recreation hopes will be a model for future improvements Citywide. As you review other agencies capital programs in this book, you will see other public-private contributions that have been developed to meet the challenges that lie before us. Still, other programs rely heavily on federal and state funding. Together, we are working to make a stronger Detroit in this new millenium; this year of Detroit's 300th birthday.

This Proposed Capital Agenda for five-year period ending 2006 reflect an average annual capital program citywide of more than \$500 million from all funding sources. The details of the program are shown in the Departmental Programs section of this book. A brief outline of each agency's capital program is outlined below.

Airport plans to address its FAA requirements with the continuation of Phase II of the mini-take program. They also would like to address needs for terminal renovations, runway upkeep, security needs and some facility upgrades.

The **Detroit Institute of Arts** is embarking on a major capital campaign in accordance with its Master plan for the museum over the next 10 years. The master plan calls for major building renovations to the North and South wings and the construction of a new addition for exhibition and educational use. The total capital program is projected to cost \$77 million from private and public funds- \$25 million in general obligations bonds are reflected in this agenda.

Civic Center capital program focuses on some deferred capital improvements, as well as updating/renovating old-worn facilities at Cobo Hall, to better serve its clientele and the visiting public and also to remain competitive in the convention market.

The **Charles H. Wright Museum of African-American History** has facility improvement requirements. Also under consideration is a new parking deck facility.

One of the **Planning and Development Department** goals is to foster economic development in the City of Detroit. They provide various types of assistance to those interested in residential and commercial development in the City. The areas of assistance include land assemblage in conjunction with the disposition of public land, affordability subsidies and technical assistance.

The **Department of Public Works** and the **Street Capital Program** emphasizes road repairs and improvements and facility improvements that support the mission of the department. Improvements to the street maintenance garages and new salt storage facilities are planned expenditures in the next five years.

Fire station renovations and replacement for those stations determined too costly to renovate is the primary focus of the **Fire Department** capital program. Fire continues its five-year renovation program that began in 1998. They are also in the planning/design stage for new construction of a model fire station; the proto-type of which could be used throughout the City.

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Health Department capital plan includes the construction of a new animal control facility, as well as, continued improvements to the Herman Keifer complex.

Building expansion and collection storage needs are priority projects for the **Historical Museum**. A new building addition to showcase 20th century life in Detroit will be a major capital campaign for the museum that will require both public and private support.

The **Housing Commission** continues its program of renovating its public housing stock and constructing new, innovative housing for the citizens of Detroit.

Repairs to the main library and maintaining the branch libraries are of concern to the **Detroit Public Library**. Roofing, mechanical and electrical system repairs/upgrades are needed at both the main library and branches. Repairs to the Campbell and Mark Twain branch are needed to service the underserved population of Detroit. Plans are underway to restore the Bookmobile service during fiscal year 2001-02. The Downtown branch will be renovated and re-opened with funding from the Skillman Foundation.

Municipal Parking has begun construction on a new garage in the heart of downtown Detroit to service new development. It will continue its program of parking structure improvements to be funded with revenues from the system.

Precinct renovations continue at the **Police Department**. A priority project is the construction of a new Public Safety Mall to be built in Southwest Detroit, in conjunction with the Fire Department. The new mall will be multi-jurisdictional- with services provided by the Michigan State Police, 36th District Court, Municipal Parking, all to be housed at this location.

Major renovations at the Mistersky Power Plant take center stage at the **Public Lighting Department**. The purchase and installation of two transmission lines, a 120-mw generator and the construction of a new switch house will greatly increase the power generation capability of the Department, as well as, increase the reliability of the system. Substantial funding requirements is still needed for maintaining street lighting infrastructure, new developments, substation improvements and traffic signal utility.

Infrastructure improvements are the main goal of the **Recreation Department**. The Department has a vast array of facilities, recreational lands, parks, playscapes, trees and boulevards and also the Eastern Market it must maintain. This is an awesome task that requires some innovative partnerships that the Recreation Department has entered into. The program continues to address community concerns for service.

The **Department of Transportation** continues its program of fleet replacement and facility renovations. Major investments planned include Timed Transfer Centers (2) to address the child-care and transportation needs of the community. A Downtown Intermodal Transit Center and the Downtown Mobility Management System is needed to accommodate new development occurring in downtown Detroit. Funding is primarily provided from Federal grants.

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The **Detroit Water and Sewerage Department** has begun a major construction project with the replacement of the Water Works Park facility. The departments capital program includes a number of projects to rehabilitate and improve aging water system facilities. The construction of new transmission mains will provide for more reliable and increased water supply. Other water system improvements involve projects that will implement the latest technological advances (such as disinfection technology).

Improvements of the Sewage Disposal System include replacing, rehabilitating or improving existing facilities at the wastewater treatment plant, pumping stations and major sewers. New construction of retention basins and combined sewer overflow systems and computerization upgrades are also included.

New facilities- an education center, veterinary hospital and exhibits are planned for the **Detroit Zoological Institute**. The zoo is in process of completing its new Arctic Ring of Life exhibit. Also planned is a new Great Ape Dayroom exhibit. Renovations to the concessions and commissary, infrastructure repairs to the hospital, restrooms, gunite, roofs and roads are needed. Improvements to the Belle Isle Zoo and aquarium are also included in this Capital Agenda.

SUMMARY DEBT POLICY

The City of Detroit has established the following debt policy guidelines pertaining to the issuance and administration of debt:

- *Policy Goals* - To establish practices which will enable the City to borrow funds to maintain and enhance the City's physical infrastructure, while minimizing the cost to taxpayers.
- *Purpose of Debt* - To issue debt only for capital purposes, and not to finance current operations.
- *Compliance with Laws* - To follow all applicable Charter, State and federal laws and regulations, including those regulations governing the amount and purpose for which debt may be issued and all federal regulations relating to the maintenance of the tax exempt status of bonds.
- *Investor/Rating Agency Relations* - To provide timely, accurate and pertinent information to interested investors and rating agencies. The City will follow the disclosure guidelines approved by the Government Finance Officers Association to the greatest extent possible in disseminating information and will adhere to the City's Continuing Disclosure Undertaking commitments.
- *Security/Repayment Characteristics* - To issue revenue debt which is totally self-supporting to the greatest extent possible. Voter approved unlimited tax bonds or bonds, which are expected to be paid from non-general fund sources, are generally the preferred options to finance capital projects which are not or which may not be self-supporting. Limited tax obligations which are payable only from current general fund tax dollars will be considered only if other options are not available.
- *Credit Support* - To obtain external credit support when it is determined that use of such support produces present value savings; however, the importance of maintaining market access for and name recognition of the underlying credit will be considered in evaluating the benefit of credit support.
- *Repayment Terms* - To repay bonds in a period not exceeding the life of the project, generally not exceeding 25 years for general obligation bonds and 30 years for revenue bonds. The City will avoid issuing debt, which provides for balloon principal payments in the final year(s) of maturity. The City will use level or declining total debt service structures (which may take into account previously issued debt), except when an increasing debt payment structure fits an overall strategy of a project. In addition, during the period of construction, the City may choose to pay interest only or may capitalize interest, if appropriate.
- *Debt Levels* - To reduce general debt ratios to levels consistent with the average of cities of similar size and responsibilities. The goal of issuing debt without increasing the property tax burden will be factored into planning the sizing and scheduling of general obligation, unlimited tax bond issues.

SUMMARY DEBT POLICY

- *Debt Instruments* - To issue debt with fixed rates and terms, except that variable rate debt may be issued if the total amount of true variable rate debt does not exceed 20% of the aggregate amount of debt payable from a particular source. Variable rate debt will be counted as fixed rate debt if it is synthetically converted to a fixed rate obligation through the use of an interest rate exchange or similar agreement, or if the period of interest rate exposure does not exceed 2 years. Debt instruments utilizing imbedded swaps or having other less traditional characteristics may be issued, provided the City is not unduly exposed to third party risk and that utilization of such an instrument does not precipitate an adverse rating agency reaction.
- *Short Term Debt/Leasing* - To minimize the need for short-term debt by incorporating a goal of avoiding such debt in financial and cash flow planning. Leasing or lease purchase financing may be considered on a case-by-case basis for equipment and special projects, taking into account the expected life of the equipment and/or the nature of the project.
- *Investment of Bond Proceeds and Debt Service Funds*- To invest funds in accordance with State law, bond indenture provisions and the City's written investment policy. All funds are invested with risk avoidance being of the highest priority, but taking into account cash needs and the potential for maximizing yields. Generally, the City's investment policy restricts the maximum term of investments in bond proceeds accounts to 3 years, in debt service accounts to the date such funds are required and in debt reserve accounts to 5 years.
- *Review of Policy* - To review the debt policy at least once every 2 years, and to include the formal debt policy as a part of or an annex to the City's Five -year Capital Agenda.

INTRODUCTION

The five-year Capital Agenda is a requirement of the City Charter, and is to include all capital projects to be financed in the next five years with "funds subject to control or appropriation by the City". The intent of the Agenda is to provide a planning vehicle for City projects. It is not intended to be, nor should it be construed to be, a five-year budget. This Agenda assumes successful appeal to the voters for additional bond authorizations in future years.

The Capital Agenda is part of a continuing planning process, which systematically reviews and analyzes the City's capital needs. All proposed capital projects are evaluated for their conformity to the City's Master Plan and, where applicable, to other major policy concerns, such as the requirements of other governmental units, conservation of energy and accessibility by the handicapped. Certain of the proposed Departmental programs conform to the requirements of the Federal or State agencies or programs involved in the funding or regulation of their respective improvements: the Departments of Housing, Recreation, Transportation, and Water and Sewerage, and the Street Capital Fund, each file other planning documents with which this document is consistent.

This document is arranged into two parts. The **DEPARTMENTAL PROGRAM** section contains the proposed five-year capital plan (Fiscal Years 2001-02 through 2005-06) for City agencies. Each department has included in its presentation a narrative description of its capital program along with a summarized funding schedule for each project. These project summaries are listed in priority order. Also included is a section on Major Sources of Revenue, which gives a narrative description of the various funding sources for capital projects. The second part of the document outlines the capital program of related agencies with capital improvement activity occurring within the City of Detroit. Included in this category are the economic development-quasi-public agencies, as well as, various development programs. We hope that in the future that we can continue to expand on the information presented in this document to facilitate the reader in understanding capital improvements occurring within the City of Detroit.